



RESPONSE OF THE ASSOCIATION OF BRITISH INSURERS TO THE CONSULTATION ON POSSIBLE IMPLEMENTING MEASURES TO THE TRANSPARENCY DIRECTIVE

1 General

- 1.1 Members of the Association of British Insurers control portfolio investments worth in the region of Euros 1,500bn, including substantial holdings of equities in EU markets. They rely on well-functioning markets to generate value for individual savers on whose behalf they are investing.
- 1.2 An orderly flow of information is of paramount importance to confidence. ABI members therefore welcome the opportunity to respond to the current consultation, particularly with regard to the arrangements for the dissemination of price sensitive information, including regular results announcements mandated under the Transparency Directive.
- 1.3 A number of fundamental principles underlie the specific responses set out below. Information should reach the market promptly and be accessible to all investors at once. Investors also need to know where to look for such information. It should be available in one place.
- 1.4 This last consideration appears at odds with the provisions of the Directive requiring competition in the provision of information, as competition implies that companies could choose between a range of disclosure mechanisms. ABI members believe, however, that the current UK arrangements provide a model, which meets the terms of the Directive and contributes to market confidence.
- 1.5 Under this model, which is different from that illustrated in the consultation document, the task of disseminating information to the market is not assigned to one single operator but divided in three. First there are processors who compete to make disclosures ready for transmission. Second there is a central feed of information, which acts as a pipeline through which announcements are transmitted sequentially into the market. Third there are distributors who make this feed available as part of a portal or package of financial information. Again, distribution is open to competition.
- 1.6 Since the central feed is available on free-to-air websites the information is accessible to all investors in all member states, including retail investors at no cost. This meets another essential requirement of the directive.
- 1.7 Our members believe that the eventual regulations should be compatible with this model. While it would be wrong to impose any one model, we believe that Europe as a whole would benefit if similar models were developed in other

member states. This approach is also compatible with the need rightly identified in the consultation document for regular reports required by the Transparency Directive to be distributed through the same channel as that through which disclosures are made under the Market Abuse Directive.

- 1.8 Moreover, we see considerable problems with arrangements that merely require companies to publish announcements on their own websites or in newspapers. In the former case investors would face the enormous task of keeping under surveillance the websites of all individual companies in which they have invested. In the later case, it would be impossible to ensure that investors across the entire European Union had access to the information.
- 1.9 The detailed answers set out below relate to the section of the document that deals with the dissemination of time and price sensitive information into the market. Our members are less concerned with the detailed arrangements for the central storage mechanism, discussed in later part of the document, although they would make some points in principle.
- 1.10 First, by definition there is a contradiction between a central storage mechanism and competition in the provision of such a mechanism. Competing mechanisms can never be central. However, the concept outlined above involving a pipeline with competition to process disclosures on the one hand and to distribute the file on the other could be adapted to meet this requirement. Processors could compete to format and feed information to the central storage mechanism on behalf of issuers.
- 1.11 What is also needed is a means of deciding which announcements are time sensitive and which therefore need to be distributed immediately to the market. The full text of annual reports, for example, needs to be available and stored, but may not need to be published on a market news service. In these cases we agree with the suggestion in the consultation document that the central news feed could merely announce that the report was available in the archive.
- 1.12 Under our preferred model, the organisations responsible for processing announcements and feeding them into the news pipeline could also be responsible for directing information to the central storage mechanism and for distinguishing between those which could go straight to the archive and those which needed to be posted first on the news feed.
- 1.13 In this context, an issue of importance to ABI members is that annual meeting notices and proxy forms need to be posted publicly and clearly. For them to be carried on an easily accessible central storage mechanism would be a means of satisfying this need.

2 Specific answers

Question 1. What are your views on the minimum standards for dissemination? Are there any other standards that CESR should consider?

A key consideration for investors is that price sensitive information reaches the market in a timely and orderly way, which means it should be available simultaneously to all investors. Unless this happens some investors will have an unfair advantage and overall confidence in the market will decline.

The Directive also requires that information is available to all types of investor in all member states. This suggests two pre-requisites for a satisfactory system. One is that the information needs to be available through the web. The other is that there needs to be a sequential flow of information to the market.

The current UK system conforms with this and meets all the requirements set out in paragraph 5. It allows processors to compete for the business of inserting issuers' announcements into a single main file which is both available to retail investors on free-to-air websites and repackaged and redistributed to wholesale markets and others by competing information providers.

The requirements with regard to distribution set out in paragraph 6 need to be reviewed to favour this type of operator model. At present they appear to rely on distribution through a sufficiently wide variety of media to ensure information reaches investors. But investors need to know exactly where to look for price sensitive information, including regular result statements, as it is announced. Competent authorities in each market need to ensure that there is a sequential flow of price sensitive news.

We agree with paragraph 6b on output format. It is particularly important that the full original text is made public. As to additional standards, an authentication requirement is key, though this is dealt with later.

Question 2. What are your views on the standards for dissemination by issuers?

In theory there is no reason why issuers should not themselves process announcements for transmission via a centralised file. The advantage of using a processor, however, is that this provides consistency in format and affords the opportunity for authentication. For these reasons we would discourage direct input by issuers.

Question 3. Should an issuer be able to satisfy all of the Directive requirements to disclose regulated information by sending this information only to an operator?

Yes, the option to do so would encourage the use of the operator model described above. The reservation raised in paragraph 7 could be resolved by requiring that such operators be approved by the competent authority and work to specified standards. This would create scope for a one-stop disclosure mechanism whereby the operator also fed information into the central storage mechanism/archive mandated by the Directive.

Question 4. Do you agree with the structure set out in Figure 1? Are there any other structures that would be in line with the Transparency Directive requirements?

The essential issue here is that issuers may not charge investors for the information they receive. This requirement could be met by the operator of the central feed agreeing to display the information on a free-to-air website. Such an approach would not preclude the operator selling the information feed to media operators for repackaging. Large wire agencies will wish to incorporate the regulatory news feed as part of their overall product and can generate value through the overall packaging.

A further way of meeting the costs of the operator would be through the fees paid to processors by issuers for placing information in the correct format on the system.

Question 5. Should operators be subject to approval and ongoing monitoring by competent authorities?

Yes. This is particularly important if the competent authority is itself relying on the operator for receipt of information by the issuer.

Questions 6,7. What are your views on the proposed minimum standards to be satisfied by operators? Should issuers be required to use the services of an operator for information dissemination?

The need for an orderly flow of information to the market and the requirement of investors to have one place in which to look for information on price-sensitive developments suggests that issuers should be required to use an appropriate channel. But provided they meet the standards set out in the implementing regulations, issuers should be able to choose from a range of processors whose job is to feed the information to the central file. Equally, there should be no single monopoly right of distribution. Quality standards should apply to all involved in the process, appropriate to the role they play. Taken in the round, the standards suggested in the document meet this need.

Question 8. What are your views concerning the role of competent authorities in disseminating regulated information as operators?

The competent authority should ensure that there is a central news feed to the market and there is no reason why it should not provide this itself. But it should not retain a monopoly right over processing of issuer disclosures and distribution of the news feed.

Questions 9 and 10. Do you consider it necessary to attempt to address the risk that regulated information may not reach every actual and potential investor throughout the EU? Which of the options presented above would minimise this risk?

Publication on a website will give investors throughout the EU access to regulated information as long as they have an ability to use the internet. There is a risk that investors lacking such an ability will not receive the information, but it must be supposed that retail investors sophisticated enough to invest across borders in the EU or to invest directly in shares in their own market will have use of the internet. To meet the requirement of the directive that investors should not be charged for the information, it is important that the information be available on at least one free-to-access site.

Question 11. Do you consider there to be other methods of dissemination that would satisfy the minimum standards for dissemination?

We agree with the analysis set out in paragraph 26 with regard to prioritising information and with the approach whereby announcements involving a large volume of material could be made available within reasonable time within the central storage mechanism provided the market is notified of its availability and any price sensitive elements are announced directly to the market. We believe that this approach is appropriate and cannot identify satisfactory alternatives.

Question 12. Do you agree with this draft Level 2 advice?

Yes, subject to the comments outline above.

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